

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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FM AMEMBASSY TEL AVIV
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E.O. 11652: N/A
TAGS: EFIN, ECON, IS
SUBJECT: GOI OFFICIALS DISCUSS ECONOMIC POLICIES AND PROSPECTS

1. BEGIN UNCLASSIFIED. TOP FINANCE MINISTRY AND BANK
OF ISRAEL OFFICIALS, INCLUDING FINANCE MINISTER EHRlich,
MET IN TIBERIAS AUGUST 22-23 FOR A BRAINSTORMING SESSION
ON FUTURE ECONOMIC PROSPECTS AND POLICIES PRESS
REPORTS, LATER CONFIRMED TO THE EMBASSY BY FINANCE
MINISTRY SOURCES, SAID THAT THE ECONOMIC EXPERTS
PROJECT:

--THE 1978-79 FISCAL YEAR (BEGINNING APRIL 1978) STATE
BUDGET WILL TOTAL APPROXIMATELY IL 160 BILLION: THERE
WILL BE CUTS IN REAL SPENDING ON DEFENSE AND SOCIAL
SERVICES AND NO INCREASE IN REAL TAXES.

--AN IMPROVEMENT IN 1978 BALANCE OF PAYMENTS OF \$200
MILLION. THERE WILL BE A CUMULATIVE DEVALUATION OF
20 TO 24 PERCENT BY MEANS OF SEVERAL CREEPING DEVALUATIONS.
SINCE THE DOMESTIC INFLATION RATE IS FORECAST TO BE
IN THE SAME RANGE AND ISRAEL'S MAIN TRADING PARTNERS
WILL ALSO HAVE INFLATION, SOME REAL DEVALUATION OF
THE IL IS IMPLIED. EXPORT EARNINGS WILL RISE BY 10
PERCENT; IMPORT COSTS WILL REMAIN AT 1977 LEVEL.

--SOME INCREASE IN REAL ECONOMIC GROWTH; PER CAPITA

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PRIVATE CONSUMPTION RISING BY 1 PERCENT, AND PUBLIC
CONSUMPTION DROPPING BY 2 PERCENT.

--NO INCREASE IN REAL WAGES IN 1978; THE UNEMPLOYMENT
RATE IN 1977 AND 1978 WILL AVERAGE 4.7 PERCENT.

--THE AVERAGE INFLATION RATE WILL BE 26-28 PERCENT
IN 1977 AND 20-23 PERCENT IN 1978. END UNCLASSIFIED.

2. BEGIN LIMITED OFFICIAL USE. COMMENT: EMBASSY
THINKS FORECASTS ARE BASICALLY REALISTIC, ALTHOUGH
SOMEWHAT TOO OPTIMISITC ON INFLATION IN 1977 AND TOO
PESSIMISTIC ON UNEMPLOYMENT IN 1978. IMPLEMENTATION
OF DEFENSE AND SOCIAL SERVICES SPENDING CUTS WILL
LIKELY BE OPPOSED BY THE HERUT CONSTITUENCY IN LIKUD.
DAN HALPERIN, NEWLY APPOINTED FINANCE MINISTRY
ASSISTANT DIRECTOR GENERAL FOR INTERNATIONAL AFFAIRS,
TOLD EMBOFF AUGUST 24 THAT LIBERAL ECONOMIC TEAM
RECOGNIZES POSSIBLE OPPOSITION TO THESE BUDGET CUTS
WITHIN LIKUD BUT FEELS IT HAS POLITICAL BACKING
TO PUSH BUDGET PLANS THROUGH.
LEWIS

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Message Attributes

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